



(Incorporated in the Republic of Singapore on 14 August 2015)
(Company Registration Number: 201531866K)

RESPONSES TO QUESTIONS RECEIVED FROM SIAS AND SHAREHOLDERS IN RELATION TO THE ANNUAL GENERAL MEETING TO BE HELD AT 2.00 P.M. ON 29 APRIL 2024 (THE "AGM")

The board of directors (the "**Board**") of Secura Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce the following response to the queries raised by the (a) Securities Investors Association (Singapore) (the "**SIAS**") on 19 April 2024; and (b) shareholders of the Company ("**Shareholders**") on 20 April 2024, with respect to the Company's annual report for the financial year ended 31 December 2023 (the "**Annual Report**").

1. Security Printing segment

1.1 Question from SIAS

As highlighted in the message to Shareholders, the Monetary Authority of Singapore, along with the Association of Banks in Singapore, announced plans to gradually phase out the use of corporate cheques by the end of 2025. While an end date for cheques by individuals has not been determined, these regulatory changes have introduced a high degree of uncertainty to the Security Printing business. Management is currently reassessing the business model and operational strategies to identify effective pathways forward.

An impairment loss of S\$1.0 million representing the write-down of property, plant and equipment was recognised as an "administrative expense". The recoverable amount of the cash-generating unit (CGU) relating to Security Printing was assessed to be S\$4.9 million.

- (a) What portion of the revenue can be attributed to corporate and personal cheque printing? The Security Printing segment recognised S\$5.6 million in revenue in 2023 and a segment loss of S\$(0.4) million (page 139).
- (b) When does management anticipate finalising its response to the regulatory changes?
- (c) Are there alternate uses for the property, plant and equipment used in Security Printing segment? Is there a possibility that the recoverable amount of the Security Printing CGU may eventually be written down to S\$0 from its current value of S\$4.9 million?

Company's response

- (a) We do not segment the Group's revenue between corporate and personal cheque printing. However, approximately 40% of the revenue from our Security Printing segment in FY2023 was attributable to cheque printing.

- (b) Management is actively addressing recent regulatory changes and evaluating all relevant factors for strategic response. While no specific date has been set, the Group is open to all proposals that are viable and strategically beneficial to the overall business. Should there be any significant developments, the Company will make an appropriate announcement.
- (c) The leasehold building, which constitutes the majority component of the CGU, will be depreciated over the remaining lease period. It will continue to be used for various security printing services beyond cheque printing.

1.2 Question from Shareholder

- (a) The Security Printing CGU recorded a S\$1 million impairment due to a decline in cheque printing. In light of this are there any plans to expand security printing operations beyond Singapore, perhaps leveraging the 30% stake in Bangladesh, to address this decline?
- (b) What other printing services do we provide in addition to cheque printing? Do we also engage in currency note printing, and if so, has there been a corresponding decline in demand for this service? How is the Company responding to any decreases in demand for currency note printing?
- (c) Given that the Company holds a monopolistic position similar to that of the Singapore Mint in currency note printing, will the government's push towards electronic and digital payments affect the future relevance of currency note printing?
- (d) Is Secura Bangladesh, which is an associate company with a 30% equity stake, involved in printing currency notes and cheques for the central bank?

Company's response

- (a) Please see the Company's response to Question 1.1 (b).
- (b) Besides cheque printing, we produce and supply a variety of documents to financial institutions, such as drafts, cashier orders and commercial forms. We also supply secure documents including certificates, examination question papers and result slips to educational institutions and ministries in Singapore. Our offerings extend to betting slips, postage stamps, parking coupons and general commercial printing. However, we do not print currency notes.
- (c) We do not print currency notes.
- (d) Secura Bangladesh does not print currency notes. Secura Bangladesh primarily focuses on printing of cheques and other secured document for banks and commercial use locally.

2. Security Guarding segment

2.1 Question from SIAS

- (a) The segment achieved lower gross profit margin due to higher liquidated damages from manpower shortages. What was the total amount of liquidated damages paid out in 2023? Can management clarify whether Soverus has been facing ongoing challenges with manpower shortages, leading to it not meeting its contractual/operational obligations to its customers? How is management optimising business growth, service quality and reputation in this segment given the current market dynamics?
- (b) How does management see the impact of the Progressive Wage Model (PWM) on the industry in both the near term and the long term? Will it lead to the exit of smaller players and/or significant market consolidation?

Company's response

- (a) In FY2023, we incurred S\$1.9 million in liquidated damages largely due to manpower shortages across the Security Guarding industry. These shortages exacerbated by ongoing health issues, like COVID-19 and flu-like illnesses, have severely impacted our ability to meet contractual obligations, resulting in customer penalties.

To mitigate these challenges, we implemented Outcome-Based Contracting (“OBC”) for our customers a few years ago. This approach aims to reduce our reliance on manpower by leveraging on technology for remote monitoring and response from our Integrated Command Centre. While we have successfully onboarded some clients to OBC, most of our contracts still operate on headcount-based arrangements.

To strengthen our workforce, we actively participate in recruitment drives and collaborate with strategic partners to boost our pool of officers. Aside from Singapore, we also look towards our neighbouring country, Malaysia for our recruitment drive. Together with our in-house training academy, we have the added advantage of providing the relevant training and qualifications for our security officers. We are also actively reviewing and refining our scheduling and deployment strategies to ensure the efficient deployment of our officers.

- (b) The introduction of the PWM has resulted in higher salaries for our security officers. This increase is accompanied by additional compliance costs, such as training expenses incurred to equip our officers with the necessary PWM training requirements to meet established wage standards. In a highly competitive labour market, the combination of these higher operating costs and the substantial cash flow needed for working capital management might drive some security agencies to exit the market.

Question from Shareholder

- (a) Although revenue has grown, the profit margin has not changed and remains at 4% compared to the previous year. What is the main cause of this and is it related to the Government's Progressive Wage Model?
- (b) Is the Board satisfied with the 4% profit year on year?

Company's response

- (a) The profit margin of 4% can be attributed primarily to two factors; namely the PWM and the shortage of manpower which are explained in the Company's responses to Question 2.1 (a) and (b). These factors have collectively led to higher deployment costs which in turn impacted the overall profitability of the Security Guarding segment.
- (b) The Board recognises these challenges and management remains focused on optimising operations and improving efficiency to enhance profitability. Despite this, the EBITDA of the Security Guarding segment remains positive at S\$2.3 million.

3. Cybersecurity segment

3.1 Question from SIAS

In August 2023, the Group acquired a 51% stake in Onesecure Asia Pte Ltd ("**OSA**") which provides cybersecurity services including round-the-clock security operation centre monitoring, detection of web spoofing and site defacement, as well as identifying and mitigating Distributed Denial of Service attacks.

- (a) How many new customers were acquired with the OSA acquisition and are there opportunities for upselling and cross-selling the Group's services?
- (b) What is the earn-out target for OSA? The purchase consideration for OSA could be as high as S\$2 million and the group has recognised a goodwill of S\$1.62 million arising from this acquisition.

Company's response

- (a) OSA primarily serves clients in telecommunications, educational institutions and various commercial enterprises. Apart from broadening our customer base, the OSA acquisition also provides significant opportunities for upselling and cross-selling our extensive range of services. Additionally, the OSA acquisition enables the Group to expand its presence in the cybersecurity market and capitalise on the increasing demand for robust security solutions.
- (b) The total consideration for OSA is up to S\$2.0 million, comprising S\$1.0 million cash payment on completion date and the remaining amount of up to S\$1.0 million is subject to meeting earn-out targets. The earn-out component is contingent upon the OSA group meeting specified targets based on the audited net profit after tax from FY2024 to FY2026. For detailed earn-out conditions, please refer to the Company's announcement dated 1 August 2023 or the link provided below for ease of reference:

<https://links.sgx.com/1.0.0/corporate-announcements/ABQULMH5651YE53J/02a777ccc4bc3ff68cda5e05a351ec9cb9e9e51b7cf0458c984130450bc7f71b>.

3.2 Question from Shareholder

Regarding the recent acquisition of OSA, which has operations in Singapore, Malaysia, and Indonesia, and considering the recent fluctuations in the Malaysian Ringgit (MYR) and Indonesian Rupiah (IDR), is there any currency exposure? If so, are there measures in place to hedge against this exposure?

Company's response

OSA's operations in Malaysia serve as an extension of the Security Operation Center (SOC) operation in Singapore. This extension leverages the readily available workforce and lower cost structure in Malaysia, allowing the Group to support both local and regional customers.

In Indonesia, sale and purchase transactions are conducted in US dollars, hence providing a natural hedge. These transactions are not significant to the overall business.

4. General question

4.1 Question from SIAS

The Company disclosed its economic performance in the sustainability report showing the economic value generation and distribution.

	FY2023	FY2022
Direct Economic Value Generated (S\$'000)		
Net sales	59,877	48,637
Revenues from financial investment ¹	263	88
Other operating income	3,163	2,508
Economic Value Distributed (S\$'000)		
Operating costs	13,214	11,633
Employee wages and benefits	48,630	38,340
Finance costs	95	81
Dividends to shareholders	550	1,000
Income tax expense	229	223
Economic Value Retained² (S\$'000)	81% of net sales 385	79% of net sales (44)

(Source: company annual report; emphasis added)

Approximately 80% of the economic value generated is distributed as wages and benefits.

- Is the current level sustainable? If not, what would be a more appropriate level to ensure the sustainability of the business?
- In terms of capital allocation, has the Board assessed returns across different industries and segments to refine its capital allocation accordingly?
- Does the Group plans to make significant investments in cybersecurity? Will these investments primarily focus on organic growth, or is the strategy centered around acquiring cybersecurity firms that align with the Group's overall strategy?

Company's response

- (a) The Security Guarding segment accounts for approximately 80% of the Group's payroll expenses. To ensure the long-term sustainability of the security guarding operations, it is crucial for both individual businesses and the security guarding industry as a whole to transition to OBC contracts. This approach prioritises outcomes and performance metrics over traditional manpower-based contracts, necessitating the use of technology to enhance task delivery and reduce the dependence on human resources. The success of this strategy hinges on the collective progression of the entire industry in the same direction.
- (b) The Board regularly assesses returns across the Group's business segments and refines its capital allocation strategy to ensure optimal deployment of resources.
- (c) The Group remains open to various avenues for investment in cybersecurity. While organic growth is a consideration, we do not rule out the possibility of acquiring cybersecurity firms that align with our overall strategy.

BY ORDER OF THE BOARD

Kan Kheong Ng
Executive Director and Chief Executive Officer

24 April 2024

This announcement has been prepared by the Company and has been reviewed by the Company's sponsor, United Overseas Bank Limited (the "Sponsor"), for compliance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalyst.

This announcement has not been examined or approved by the SGX-ST. The SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Ms. Priscilla Ong, Vice President, Equity Capital Markets, who can be contacted at 80 Raffles Place, #03-03 UOB Plaza 1, Singapore 048624, telephone: +65 6533 9898.